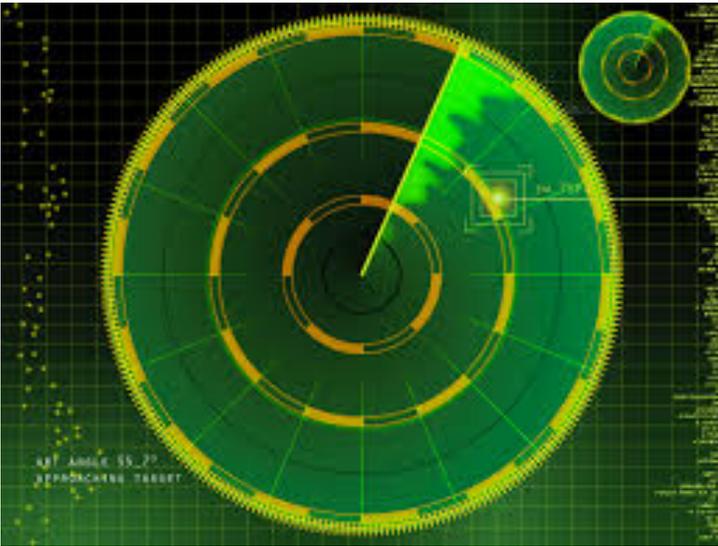


## Pharma, biotech cos low on VC radars

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This is primarily driven by increasing per capita disposable income, rising urbanization and growing health awareness, rapidly shifting disease patterns from acute to chronic, and growth in domestic healthcare infrastructure.

In the last two years, the healthcare and Life Sciences sectors have attracted over \$2.3 billion worth of private equity (PE) [investments](#), accounting for over 10 percent share of all PE investments done in India.

The Indian healthcare and lifesciences sector continues to be among the top five destinations for private equity investors in India.

#### [Are VCs risk averse?](#)

"In my view, within the Life Sciences space, VCs are highly [risk averse](#) to novel drug discovery investments given the very high failure rates involved. Aside of this, most other segments in lifesciences including generics, contract manufacturing, IT, discovery services, and retail, have all faced active investments by VCs," opined Ms Visalakshi Chandramouli, Partner - Healthcare Fund (Private Equity), Tata Capital.

There are also others who are willing to take calculated [risks](#) in an investment. "Good venture capitalists in lifesciences and in other areas are those who take thoughtful risks, but 'taking risk' alone is not a wise investment strategy. I agree that India doesn't have a well-developed ecosystem. This is partly a developmental issue. As we see companies delivering sound returns, there will be greater appetite for life sciences opportunities among venture firms," Mr Rajeev Mantri, executive director, Navam Capital, said optimistically.

At times, it may totally depend on who the VCs are, what their mandate or philosophy is.

Mr Vishal Gandhi, founder & CEO, BioRx Venture Advisors (BVA), commented, "It is important to find the right advisor so that the chances of raising the capital is more. One needs to appreciate the role of advisors and they are not risk averse. There are no businesses without risks provided there are appropriate mitigation strategies."

There are other seed investment firms in India that have appetite to invest in early stage enterprises. "VCs generally enter after establishing proof-of-concept. We like to place riskier bets and understand the need of the hour for enterprises that are just starting out," emphasized Mr Sanjib Jha, CEO, IntelleGrow.

## **Attracting VCs**

For start-ups to attract VC investments, it is imperative they clarify their abilities and timeline for achievement of [proof-of-concept](#), and as well as the concept's scalability potential.

According to Ms Padmaja Ruparel, president, Indian Angel Network, "It is vital to focus on building a venture because you want to do it. It should be a passion as that will make it a well differentiated, fast-growing company and you will ensure you execute and deliver well. If you do this, investors will come flocking!"

Also, start-ups should build outstanding teams that can win investors' confidence. Mr Sanjib states that it is crucial to have a clear, five-year strategic model plan. "Put in a good team in place and invest in understanding your own abilities to deliver each year. Keep incorporating changes, given learning, even if it means going back to the whiteboard and starting from the scratch. If you stay honest to your model and plans, the VCs will be aligned," he advised.

The Tata Capital Healthcare Fund (TCHF) targets long-term capital appreciation through PE growth-capital investments in healthcare companies that have a significant proportion of their operations in, or revenues from India.

Mr Vishal advises start-ups to do their homework well and understand what VCs are looking for. "VCs are there to support them financially and they need to be highly proactive in searching the right VCs because not everyone is willing to invest their money. Most of the time VCs do their due diligence in investing in start-ups. This diligence should be among [entrepreneurs](#) as well before they reach out to VCs. That's where professional advisors bridge the gap," he commented.

## **Factors driving investments**

Mr Sanjib points that investors' assessment model lays a lot of stress on entrepreneurs, their ability to deliver and operationalize great ideas. "Along with this, we test for the viability and scalability of business models by going deeper than available financial statements and understanding projected cash flows," he mentioned.

Ms Padmaja lays emphasis on factors like fast growing market. "Well differentiated proposition, a promoter team which understands the challenges in the space and has a focus on execution are critical," she listed.

"The three most important factors are team, technology and market opportunity," said Mr Rajeev.

He believes that a world-class team, with novel and differentiated technology pursuing a large market makes for a winning combination.

"Financial investors are motivated by the prospect of capital appreciation. Healthcare and Life Sciences are promising and such prospects are high. So investors are keener than ever to look at this sector," he said.

A 2010 study by the Confederation of Indian Industry (CII) found that India needs \$50 billion annually for the next 20 years in order to meet World Health Organization (WHO) standards. "A further injection of \$82 billion is required to close the current healthcare infrastructure deficit. The sheer demand for capital along with capable entrepreneurs and new business models are key drivers," explained Mr Sanjib.

Another aspect driving investments in this space is the outlook of downstream investors. With foreign private equity players

looking closely in this space in India, investors are also considering areas that would look attractive to follow on investments and exits from these downstream investors.

"Weightage given to an entrepreneurial team that has delivered success in the past can be higher than others. The other interesting aspect is that innovative technology per se does not appear to drive the investment decision, but needs to be coupled with a well thought-through business model at the time of investment," Mr Ashwin opined.

Ms Padmaja noted an interesting trend where she points that teams with medical background are going entrepreneurial. "The entrepreneurship bug has gone viral in India! Thus teams with complimentary skillsets, high quality domain expertise, passion and focus on execution are starting out," she revealed.

## **Investment dilemmas**

Regulatory uncertainty is viewed as a key challenge by many investors. "The government needs to address this immediately," urged Mr Rajeev.

Mr Ashwin, on a similar line noted, "The biggest challenge today in the Life Science sector is the uncertain regulatory atmosphere related to clinical trials, and the larger problem of global acceptance of results from trials conducted in India."

Initiatives like Stanford Biodesign is helping breed medical entrepreneurs. However, [innovators of healthcare products](#) are not very common in India.

"Building products need higher amounts of investment as well as longer gestation time. Unlike most of the developed economies which breed innovators in building products, India does not yet have an enabling ecosystem such as grants, high-quality and well equipped research labs, and enabling IP rules among others. All of these become detrimental and make the innovator's journey arduous," said Ms Padmaja.

## **What's trending?**

Mr Vishal points that in terms of investments in the Life Sciences, the momentum has been sluggish in the last couple of years. "One challenge is that the IPO market is not very vibrant. The valuation expectations of promoters are very high, and that is a deterrent. Thus, the overall ecosystem for this year in terms of investments was not very good," he remarked.

However, there has been an increasing interest over the last 2-3 years in the diagnostics, drug discovery and equipments space.

"The increasing number of entrepreneurs and new business models have attracted VC investors in this area. The next few years are interesting in terms of watching the investment patterns and expectations from VCs along with the performance of different business models," predicted Mr Sanjib.

Experts opine that providers of healthcare at optimum cost is a big market opportunity and a growing one.

"This is the opportunity which even overseas entrepreneurs are tapping. Life Sciences companies in India have attracted investments but these are largely later stage companies. While hospital chains, day care centres, personal care products have attracted most of the investment, drug trials is almost at the bottom of the heap," revealed Ms Padmaja.

Mr Ashwin feels that given the huge gap in the availability of basic health infrastructure in the country there is a lot of focus on single specialty chains, diagnostics and hospitals.

"Therefore, areas like devices, information systems for the healthcare space, and pharma and biotech companies are currently lower on the radar of investment firms," he ended.

## **Happening investment areas in Healthcare and Life Sciences**

ī,§ Apps

ī,§ Day care centres

- i,§ Diagnostics
- i,§ Disease management
- i,§ Drug discovery
- i,§ Generics
- i,§ Hospital chains
- i,§ Medical devices
- i,§ Mobile and digital health
- i,§ Pediatric care
- i,§ Personal care products
- i,§ Personalized treatments
- i,§ Telemedicine
- i,§ Virtual monitoring
- i,§ Wearables
- i,§ Wellness

### **Top 5 cities attracting Healthcare and Life Science investments**

- i,§ Bangalore
- i,§ Chennai
- i,§ Delhi
- i,§ Hyderabad
- i,§ Mumbai

### **Other hot destinations**

- i,§ Ahmedabad
- i,§ Chandigarh
- i,§ Coimbatore
- i,§ Himachal Pradesh
- i,§ Kolkata
- i,§ Orissa
- i,§ Pune

### **Notable investment trends**

i,§ In the last five years (FY11-15YTD) cumulative PE investments have doubled close to \$5.5 billion in comparison to the investments between FY2005-2010YTD.

i,§ In volume terms, however, the number of transactions per annum have remained more or less the same over the past ten years (around 50-60 deals per year).

i,§ The sector transactions in the last few years are now dominated by more mature stage deals (over \$25 million transaction value) rather than early and growth stage transactions. This reflects the growing maturity of the sector and its ability to absorb further expansion capital to meet the continuing demand.

i,§ Investments in healthcare delivery emerged more dominant over the years compared to investments in lifesciences.

i,§ Healthcare delivery presently accounts nearly 70 percent of total investments transacted.

### **Factors driving VC investments**

i,§ In pharmaceuticals, India's global competitiveness in manufacturing, regulatory and scientific strength makes it possible for investors to look at companies that capture market share and value in global generics.

i,§ Investors look to capitalize on long-term domestic growth opportunities in healthcare and pharmaceuticals based on the increasing affordability and healthcare awareness among urban middle-class Indians.

i,§ An estimated addition of 150 million people to the consuming middle-class over the next decade.

i,§ Significant inequality in healthcare access in India owing to gap in healthcare infrastructure and workforce attract investors towards business models seeking to increase penetration of healthcare meeting rising demands.

## **Key successful ventures**

- i,§ Amanta Healthcare
- i,§ Consure Medical
- i,§ CromDx
- i,§ Glocal Healthcare
- i,§ Invictus Oncology
- i,§ Karmic Lifesciences
- i,§ Lokmanya Hospitals
- i,§ Mitra Biotech
- i,§ NovaLead Pharma
- i,§ Relisys Medical Devices
- i,§ Sandor Nephro Services
- i,§ Shantani Proteome Analytics
- i,§ Vyome Biosciences